POVERTY

A CDIE EXPERIENCE REVIEW

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Draft
Poverty --- A CDIE Experience Review

A CDIE Experience Review is an assessment of what USAID has done, accomplished and learned in particular development areas. It relies mostly on secondary data and analysis and is written primarily for technical and professional audiences. An Experience Review helps PPC identify areas of agreement and disagreement and decide how future analysis should proceed. Topics of experience reviews may be candidates for later evaluations

As donors focus more and more on poverty reduction, USAID needs to examine its own strategies. Poverty has always been a preoccupation of development agencies and poverty reduction has been central to USAID's efforts. In recent years a new international political dimension has added a sense of urgency --- poverty has been pushed to the front of donor concerns. This paper is intended to help USAID develop its thinking on poverty. In particular it will help USAID consider whether it should have poverty as an over-arching goal. It should be read in conjunction with PPC's <u>Policy Background Paper on Poverty</u> (Crosswell 2000).

This paper reviews: why poverty is a concern, who the poor are, what are the causes of poverty, what the donor community has been doing, how other donors approach poverty, the approaches USAID has used to reduce poverty, and finally, what types of analysis could improve USAID efforts and how USAID could put a stronger poverty focus in its programs.

This Experience Review also attempts to explain USAID's approach to poverty reduction and how it relates to other donor efforts. It identifies areas where USAID has been a leader and where it has been most successful. It describes how our experience has changed over the years, what we have learned and what works best. It also summarizes what other donors are doing, and will be useful to others within the Agency who are working on poverty issues.

EXECUTIVE SUMMARY

Why poverty is a concern
Over the last 50 years governments, multi-lateral agencies and NGOs have provided extensive aid to poor countries. While there are many success stories and a number of countries have moved into middle-income status, there are still some 1.2 billion poor people. These are people struggling to exist on $1 a day or less. It is difficult to imagine a person paying for shelter, clothing, food, health care and other essentials with less than $1 a day. Such extreme deprivation is an assault on what it means to be a human being. The public, NGOs and legislators in many developed countries have a renewed interest in

reducing such extreme deprivation, and many feel that present aid approaches are not solving the problem.

Who are the poor and why are they poor?
Leaving aside China, global poverty is concentrated in poor countries in two regions. Some 54 percent of the world's poor live in South Asia while another 25% live in Sub-Saharan Africa. Forty-six (46) percent of people in Sub-Saharan Africa live in poverty and 40 percent in South Asia. The poor are characterized by low income and lack of employment, and they lack the physical assets needed to produce income. They also lack access to markets and services (inadequate health care and education). In most cases they lack political freedoms or a government that is responsive to their needs. And all too often they face the sociopolitical factors of ethnic discrimination and inequality of opportunities.

What can be done about poverty?
Development history clearly demonstrates that it is possible to reduce national poverty levels, sometimes at a rapid rate. Economic growth has almost always reduced the proportion of people living in poverty. Rapid and sustained growth that is tilted in favor of the poor has reduced poverty even faster. Common characteristics of countries that generated economic growth rates that improved the well being of the poor are:. good policies and institutions (ones that supported effective use of resources); investments in human capital (education and health); openness to world trade and investment; a dynamic private sector; and institutional capacity (reduced corruption, good governance and the rule of law).

What are the donors doing?
The 1996 OECD DAC members (including the U.S.) agreed to a set of international poverty-centered targets:

- Reduction by one-half in the proportion of people living under the poverty line of one dollar a day by 2015.
- Universal primary education by 2015.
- Elimination of gender disparity in primary and secondary education by 2005.
- Infant and child mortality rates reduced by two-thirds of the 1990 level by 2015.
- Maternal morality rates reduced by three-fourths by 2015.
- Access to reproductive health services by all.
- Implementation of environmental sustainability strategies by 2005

In part as a result of agreement upon these targets, the international donor community is raising the profile of poverty as a key development issue. Typical of that approach is the U.K. foreign aid agency --the Department For International Development (DFID). DFID includes analysis of poverty at the country level and development of a country poverty strategy as the basis of its country aid programs. The country analysis includes the political economy of poverty, in the belief that the LDC elite must be convinced of the benefits of including the poor in the growth process. The strategy includes rapid economic growth, primarily driven by the private sector, as its starting point. It then focuses on the "type" of growth it will support. That growth needs to be equitable and inclusive with improved access by the poor to health, education, markets and assets---here the concept of assets is widened to included "human, social, natural, physical and financial" assets.

The World Bank's draft World Development Report 2000/1 has also taken poverty as its central theme. The "opportunities" provided by economic growth are the starting point. But, in order to have a major impact on the poor, the draft report stresses the importance of the pattern of growth and who actually benefits from growth. It includes "empowerment" -- making state institutions pro-poor, removing social and political barriers to poverty reduction, encouraging civil society institutions that represent the interests of the poor, and promoting better access of the poor to the legal system. The Bank also recognizes the importance of "security," or minimizing the consequences of negative shocks on the poor from natural disasters and economic restructuring.

The World Bank strategy links together the economic and institutional sides of "expanding economic opportunities for the poor" by increasing their assets and increasing the returns they earn on those assets. Included are <u>physical</u> assets (land, equipment, forests), <u>human</u> assets (labor, education, health), and <u>social assets</u> or social capital, e.g., reciprocal relationships, civil society and institutional assets such as community participation. These assets should be developed at the national level by a greater focus on the poor in public spending for education and health, decentralized urban services, group-based credit and insurance programs, community management of education, decentralization of road maintenance, land reform, etc.

What is new about the poverty reduction approach? Most of the donor policy documents are in draft form and open to a wide range of interpretation. Nonetheless, some new trends appear to be clear, which raise new issues:

- More attention is paid to programs which have a direct impact on the poor, and more attention is given to the vulnerability and security of poor people. These new emphases require more attention to the structure of poverty at the country level (e.g., transitional vs. structural or permanent).
- More emphasis is given to the "political economy" of poverty, i.e., who is pro-poor and who is anti-poor, and who captures the benefits of pro-poor programs during the adjustment process;
- More attention is given to equity and distribution, with new emphasis on land tenure reform – highly problematic for some regions such as Latin America;

These are controversial and difficult areas for donors, where issues of feasibility and “what works best” are still unsettled.

While it is useful to understand the approach of other donors, it is even more important to know how poverty has been treated in USAID programs and which programs have had the greatest poverty impact.

USAID’s current approach to poverty

In contrast to most donors, USAID does not have a stand-alone or over-arching poverty goal and poverty reduction is not included in USAID’s Mission Statement. Poverty is an underlying concern in all of USAID’s six Strategic Goals, even though it is specifically cited only in the economic growth goal. USAID’s PL-480 program includes a partial definition of poverty in its concept of “food security.”

Each of USAID’s Strategic Goals include activities that directly deliver benefits to the poor and also indirect activities, such as policy and sector reforms, that change the rules and incentives to the benefit of the poor. Without broad-based economic growth, the investment necessary to sustain direct programs cannot be maintained. The Development Fund for Africa (DFA) and the PL-480 Title III programs (both discontinued) are good examples of “pro-poor” programming, combining direct and indirect assistance.

USAID development assistance is largely focused on poor people in poor countries. USAID places an emphasis on poor countries which exhibit a level of commitment to development, develops strong working partnerships in its country programs, mainstreams gender and has a multi-dimensional approach to poverty reduction. Almost 80 per cent of USAID Development Assistance funding directly addresses the well-being of poor people in such areas as microenterprise, agriculture, education and health, and disaster assistance.

What does this mean for USAID?

USAID’s program is designed along sectoral lines (Economic Growth and Agricultural Development, PHN, Human Capacity Development, Humanitarian Assistance, Environment and Democracy) and many elements do contribute to poverty reduction. From a review of secondary data, this paper shows that for most practical purposes, USAID’s sustainable development goal <u>is</u> a poverty reduction goal. However, it also suggests there are several reasons to explore whether USAID should adopt an over-arching poverty goal.

For example, USAID’s Strategic Goals lack a unifying poverty focus and poverty reduction is not mentioned in USAID’s Mission Statement. A thorough search of 109 Agency R-4s found only 11 references to poverty or the poor**.** Two of USAID’s programs, economic growth and agricultural development, have a major poverty-reducing impacts, but USAID funding and personnel levels for these two sectors have dropped sharply. Finally, the links between poverty reduction and some of the Agency's programs, such as environment and democratic governance, could be made more explicit.

It would therefore be instructive to ask: What evidence is there from field Missions programs – in addition to the examples of the Development Fund for Africa and the PL-480 Title III program – that shows that an explicit poverty reduction goal has more of an impact on poverty reduction than USAID's normal development program? The LAC Bureau has also taken a poverty approach. "Best case" countries could be analyzed. What special problems results from this approach? What have been the costs and benefits?

1. Introduction

Donors are speaking more and more about the need to reduce Third World poverty. For many donors it is a central development theme, and they are working to focus their development assistance on poverty reduction. Though poverty reduction is central to most USAID programs, poverty is specifically mentioned in only one of USAID's six Strategic Objectives (Economic Growth). Since the U.S. does not have a specific poverty reduction strategy, some believe the U.S. may be left behind as momentum builds within the development community. In contrast, within USAID many believe that poverty is already central to USAID's program and there is no need for change: USAID does development and development means a reduction in poverty.

The DAC Poverty Network (Pov-Net) reports that many DAC donors have poverty reduction as their central organizing theme. Some donors are creating a development paradigm based on poverty reduction. These donors have poverty reduction guidelines and country assistance programs based on poverty analysis. "Political economy" is included in their poverty analysis, and assistance programs are designed to solve specific constraints that are holding the poor back. The World Bank is talking more and more about the importance of poverty reduction.

All donor agree that economic growth is essential. Almost nothing sustainable can be done to reduce poverty unless per capita GDP growth rates are consistently positive. And the <u>type</u> of growth is important: developing countries need rapid, broadly based economic growth, which creates rapidly expanding economic opportunities for the poor. By investing in the poor through basic education, health and other services the poor can take advantage of expanding economic opportunities.

Some donors are fearful of relying on an <u>indirect</u>, "trickle-down" macro-economic approach that may never reach the poor. They have images of past development programs promoting growth that benefited only the elites. They want a <u>direct</u> approach that delivers services to the poor, gives the poor direct access to resources and provides direct investments in the poor. On the other hand, there are those who believe that greater emphasis on poverty reduction may tempt donors to select projects with an eye to visible impacts on poor people, to the detriment of less visible indirect programs such as economic policy reform and good governance which are equally if not more important for poverty reduction because they affect greater numbers of poor people;

Donor collaboration is increasing in importance and much of the discussion focuses on poverty reduction. USAID is often viewed as a laggard in this regard, although it is our view that this perception is incorrect. Given the visibility of current poverty discussions, it is important for USAID to become more engaged and clearly articulate how its program addresses poverty issues. USAID should also consider whether poverty reduction should have a more prominent place in its strategic framework and goal statement.

2. Why is poverty a concern?

A moral and humanitarian issue

It is important to recognize the hardships and tragedy that lie behind poverty data. Poverty is hunger, physical stunting, illness, chronic disease and an early death. Each year two million children die before their first birthday.

Poverty is as much a social phenomenon as an economic one, in many cases more so. Poverty is degrading --- a loss of hope, dignity and autonomy --- which is as important to well-being as income. When people look at the technologies that already exist to grow more food, control disease and increase incomes they wonder why donors and LDCs cannot do more to improve the lot of the poor.

In a technical sense, poverty is a state of deprivation of fundamental human needs and expectations (food, shelter, health, knowledge, etc.) Poverty may be defined relatively and absolutely. There are poor people even in high-income countries. An absolute poverty line attempts to define a minimum state of material needs. It is estimated for each country by calculating the costs of a basket of essential goods, adjusted to reflect real purchasing power. The absolute poverty line is normally that income necessary to secure basic nutrition (2,200 calories a day) and other bare necessities of life.

World poverty levels are very high. Nearly half the world's population is in poverty, living on less than $2 a day. Of that group, 1.2 billion are living in extreme poverty, on just $1 a day (in 1985 dollars, using purchasing power parity prices). Of those in extreme poverty, 70 percent are women. A person living in extreme poverty barely has the resources necessary to stay alive. With a $1 a day it is possible to afford the 2,200 calories a day of food needed to keep the body functioning, but little is left for other needs.

U.S. Interests

The U.S. has a strong self-interest in reducing world poverty. Poverty affects U.S. international economic, environmental, health, security and political interests. Poor countries are poor trading partners and offer limited investment opportunities for U.S. companies. Problems such as drugs, disease, criminal trafficking, environmental degradation and global climate change rarely stay within national borders.

Very poor countries tend to be politically unstable and often suffer internal conflicts and wars with their neighbors. Severe economic problems are often the root of regional conflicts that tend to fester for years and years (e.g., Rwanda, Burundi, Sudan, Sri Lanka, Haiti, and Congo-Zaire). When a hurricane or natural disaster strikes, countries with a large number of very poor people are barely able to cope, and the U.S. and other donors provide costly emergency assistance. Emergency assistance is rarely a one-time occurrence --- countries with a large percentage of poor people regularly receive U.S. emergency assistance.

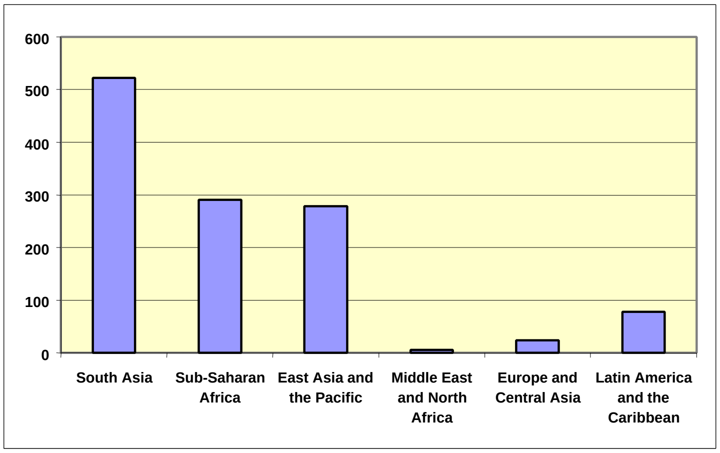
A final concern has to do with global issues; what happens in one country can affect many others. Poverty is a national and international security issue. For example: Poor countries are unable to effectively work with the U. S. to control drug production or drug shipments to the U.S.; money laundering and international criminal activity find a haven in poor countries with weak institutions; poor young men are more likely to join rebel armies; the poor are more likely to illegally migrate to other countries; and, finally, emerging diseases can move from country to country as quickly as an airplane can fly from a poor country to the U.S.

3. What is the scope and nature of poverty?

Where are the poor located?

Poverty is a relative term --- there are poor people in every country. However, in this case we are looking at very low absolute levels of poverty --- those living on $1 a day or less. In these cases people are so close to the margin, their very survival is at stake.

1.2 billion living on less than a dollar a day
Number of people living on less than $1 per day (millions)

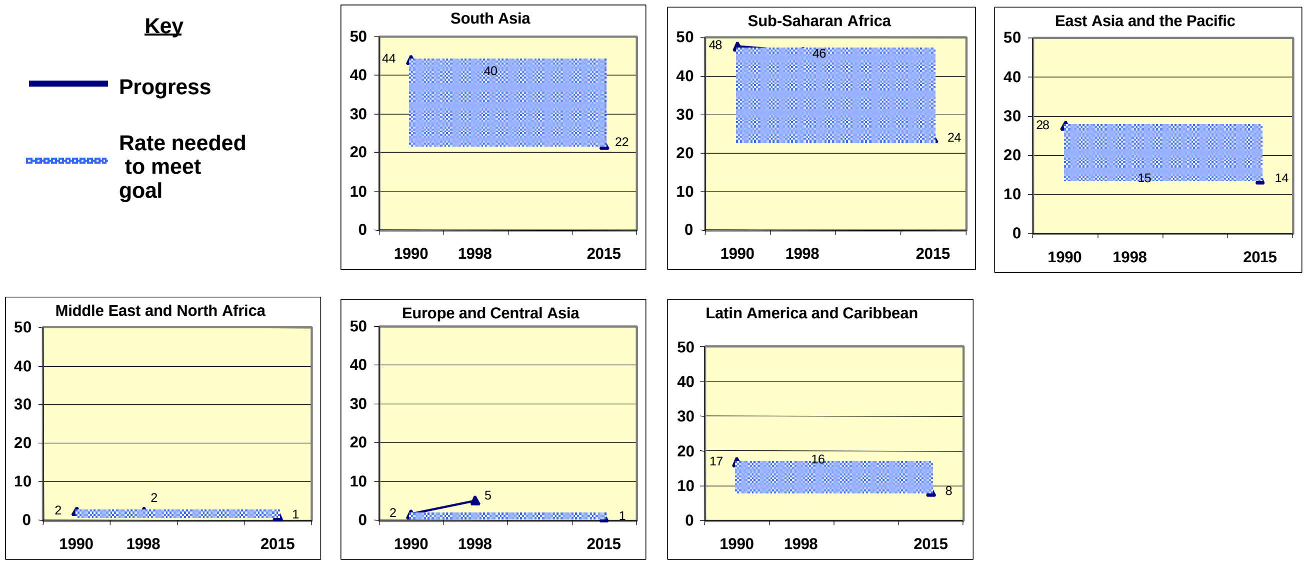


In 1998, the number of poor was greatest in South Asia (522 million). The proportion of poor people in the total population was highest in Sub-Saharan Africa (46%). Most of the poor still live in rural areas, but urban poverty is growing faster. Women and minorities are most likely to be poor.

There is reason to be hopeful. Recent data suggest that globally, from 1990 to 1998, despite an increase in world population, the absolute number of poor have declined from 1.3 billion in 1993 to 1.2 billion in 1998, and the share of poor in the world's total population declined from 29 percent to 24 percent. East Asia, including China, enjoyed a substantial decline in poverty rates. At the same time, in Sub-Saharan Africa, while the percentage of people living in poverty appears to have declined slightly, the total number of poor has grown by 50 million. The share of the total population living below the poverty line is estimated at 40 percent for South Asia and 46 percent for Sub-Saharan Africa. In other regions the incidence of poverty is well below 20 percent. The following tables provide poverty rates by region and regional progress toward the target of a 50 percent reduction in poverty rates by 2015.

Progress in reducing income poverty

Proportion of people in extreme poverty (%)



Who are the poor?

The poor can be identified by several measures. Commonly accepted measures include income level, food consumption levels, health, life expectancy, and literacy rates. They also lack political freedoms or a government that is responsive to their needs. Generally, all of these measures tend to identify the same people. The different measures are really different dimensions of poverty. These different dimensions can negatively reinforce each other and, at the extreme, generate a poverty trap --- people become so poor they cannot escape from poverty.

The poor can also be characterized by their lack of physical assets (land, tools, etc.) and lack of access to services and markets. This is due in part to factors such as remoteness, ethnicity and gender. In most countries the poorest are rural, often living away from roads and villages where economic opportunities are limited. For women the story is slightly different. Household averages do not tell us about intra-household allocations. Poor women in poor households tend to have an even lower standard of living. They generally work longer hours, consume less of household income, are less likely to receive medical treatment and girls generally have lower school enrollment rates. The majority of poor people are rural women.

Another way of looking at poverty is the duration of poverty. Many of the economically active population move in and out of poverty. They are vulnerable to spells of poverty on account of personal shocks such as illness, theft, or death of a family member or, more typically, structural shocks such as war, crop failure, natural disaster, or national economic crisis. An example of the temporarily poor was identified in a field study in Cote d' Ivoire (OECD

1999). Over half the poor were only transitory. Other studies confirm that a majority of poor households move in and out of poverty.[1] The number of transitory poor appears to differ widely over time and between countries. The ability to move out of poverty is correlated with the depth of poverty, how often a country faces structural shocks, the equity of asset distribution, and finally the average per capita income. Efforts to deal with poverty need to recognize the difference between the chronically destitute and those moving in and out of poverty. Different solutions are needed for each group in each country.

How poverty is defined can determine which type of assistance is most appropriate. The problem is never an either/or of short-term vs. long-term or consumption vs. investment. It is usually a mixture of approaches. It is useful to consider all of the alternatives.

If poverty is short-term, desperate and transitory, immediate food aid may be the most appropriate and only response. In contrast, if the problem is long-term, education might be most appropriate. If direct assistance is most appropriate, childhood immunizations and micro credit may be needed. If indirect assistance can do the job, development of healthcare institutions or encouragement of broad-based economic growth might be appropriate. If the problem is highly skewed assets distribution, as in many Latin American countries where a small share of the population owns most of the land, asset redistribution might be the answer.

Finally, catastrophic effects of conflict, which undermines the livelihood of whole communities, is a growing problem, particularly in Africa where roughly 20 million refugees constitute a growing share of the poor.

Growing out of poverty in China	Since 1978, when China initiated major economic reforms, it has achieved remarkable success in reducing abject poverty. China's official estimates of income poverty—based on a poverty line of about 70 cents per day--show an extraordinary drop from 260 million in 1978 to 42 million in 1998. Rapid economic growth and a slowing rate of population growth are major factors in China's success. Progress has been greatest when growth has been concentrated in agriculture and in poorer regions. The rural poor remain heavily reliant on agriculture for their livelihood. The greatest advances against poverty came in the early 1980s, when rural economic reforms spurred rapid economic growth.

Source: OECD, A Better World for All, April 24, 2000 (draft).

Another way of looking at poverty is by dividing developing countries into those that are still very poor (where most of the poor people of the world live) and those that are successfully moving forward. In countries with an economy that is moving forward rapidly, the number of poor people is dropping rapidly:

[1] Baulch, R. & J. Hoddinott (1999). "Economic Mobility and Poverty Dynamics in Developing Countries." Journal of Development Studies (forthcoming), cited in WDR 2000/1.

A. Advanced Developing Countries. About 25 countries (e.g., Korea, Taiwan, Thailand, Chile, Argentina, Brazil and Mexico) comprising nearly 700 million people, with an average 1965-90 per capita GNP growth rate of 3.3%.

B. Middle-Income Developing Countries. About 15 countries (e.g., South Africa, Peru, Jamaica, Dominican Republic, Morocco and the Philippines) totaling almost 500 million people, with an average annual 1965-90 per capita GNP growth rate of 2.2%.

C. Poor Developing Countries Making Clear Progress. About 10 countries (e.g., India, Bangladesh, Sri Lanka, Pakistan, Uganda, Ghana and Bolivia) totaling more than 1.3 billion have been able to sustain significant income growth. These have had an average 1965-90 growth rate of 0.8%.

D. Poor Developing Countries Making Limited Progress. Some 40 countries with 600 million people are at best seeing only intermittent income growth though most social indicators have improved (average annual GNP growth rate of 0.1%). Most, but not all, are in Sub-Saharan Africa. A subset of this group is in crisis or stalemate (e.g., Sudan, Somalia, Afghanistan, Sierra Leone, Liberia and Congo/Kinshasa).

There are 3.1 billion people included in the ranking “A” to “D” above.[2] Roughly 80 percent of the world’s population lives in countries that have made clear, significant development progress. Only a small percent (maybe 10 percent) live in countries that are clear development failures.

In addition to those categorized above, there are two others that are harder to categorize. These are the 28 post-Communist, transition countries, with their approximately 400 million people. They cover a wide spectrum in terms of economic performance, income and poverty. Many have relatively high levels of institutional development but have seen income levels fall and poverty rates increase. Finally, one country should be in a category by itself. China, with a population of 1.2 billion, has a low per capita income, but a sustained record of rapid economic growth. Those living on $1 or less per day declined from 25 percent of China’s population in 1987 to only 17 percent in 1998.

4. What are the causes of poverty and what has been learned about reducing poverty?

Why are people poor?

Ask a poor person in almost any LDC why they are poor, and the response is likely to be: “We are poor because we don’t have enough money or enough to

[2] Ranking and other data drawn from Crosswell, 1998

eat and can't find enough work." From this perspective the problem is lack of income and job opportunities. But the fundamental causes are more complex than simple lack of jobs. There are also sociopolitical causes for poverty, i.e., gender or ethnic discrimination and inequality, as well as political, cultural, historical and environmental causes.

Pyramid of Poverty Concepts.

A useful way to look at the multi-dimensional nature of poverty is the "pyramid of poverty concepts." A very narrow conception of poverty would include only private consumption, i.e., USAID's concept of food security. A broader concept includes government-provided goods and services like basic education or living near a municipal water source. A yet broader conceptualization includes assets (e.g., a bicycle, a goat). A fully broad conception of poverty includes aspects more difficult to measure such as autonomy and dignity. The "pyramid" shows why poverty assessments by donors are usually biased towards what is easily measurable --- the items at the top of the pyramid. (adapted from Thin, 1999).

Private Consumption
Private Consumption + Common Property
Private Consumption + Common Property + Government Commodities
Private Consumption + Common Property + Government Commodities + Assets
Private Consumption + Common Property + Government Commodities + Assets + Voice
Private Cons. + Common Property + Government Commodities + Assets + Voice + Autonomy
Private Cons. + Common Property + Government Commodities + Assets + Voice + Autonomy + Dignity

Economic, social and political factors are usually interrelated and mutually reinforcing, and this gives poverty its multidimensional nature. For this reason there is often confusion between cause and effect. For example, emergency food aid programs alleviate an immediate symptom of poverty but may not address the fundamental causes of poverty. Decentralization programs may give "voice" to the poor, but is it lack of voice that makes people poor, or is it poverty which denies them voice? This multi-dimensional nature also makes it difficult for donors to prioritize interventions to reduce poverty.

The most effective approach to poverty reduction depends upon the scope and depth of poverty, average income levels, resource availability, the capabilities of institutions and other factors. For instance, to reduce poverty in a higher-income developing country with capable institutions and limited, narrowly concentrated poverty (e.g. 10 percent of the population, or a group in one geographic area) requires one set of approaches. Poverty reduction in a very poor agrarian country with weak institutions and widespread poverty (e.g., 60 percent of the population) clearly calls for a very different set of approaches.

How to deal with poverty in middle income countries?

Dealing with poverty in Brazil, where income disparities and poverty are long-term structural problems, is quite different from addressing it in a low-income country like Nepal. In 1997 Brazil had an average per capita income of about $4,500 a year, yet according to the InterAmerican Development Bank, a full third of the population lived under the $2 a day poverty line. Brazil has the resources and institutions to do something about poverty --- if it seriously dealt with the problem. The issues involve political economy questions concerning how the host government deals with poverty and how the country's elite manipulates the system so that growth opportunities do not reach the poor.

Economic growth and poverty

The development record clearly shows that economic growth or income growth is fundamental to sustained reduction of poverty in low-income developing countries. Strong economic growth in poor countries has almost always reduced the share of the population living in poverty (Dollar 2000; Crosswell, 1998). The faster the rate of growth, the faster the reduction in poverty. In higher-income countries, where poverty is concentrated in hard-to-reach pockets, the impact of growth on poverty is much weaker.

Thus, sustained economic growth is the starting point and is absolutely essential if poverty is to be reduced in low-income countries. A PPC analysis of economic growth trends in 33 countries over a 25-year period confirms that fact (Crosswell 1998). These 33 countries accounted for more than 2 billion people and the major share of global poverty 25 years ago. In 35 out of 37 periods of economic growth, the proportion of the population in poverty fell. The data also confirm that economic recession has resulted in increased rates of poverty. This happened when there were periods of economic decline in 9 countries.

The DAC donors set a poverty reduction target --- to cut poverty rates in half, by 2015. The World Bank estimates that even very modest average annual per capita economic growth rates across nations in the range of 1.2 to 1.9 percent would meet that target. Are such growth rates possible? One way to tell is to look at past performance of developing countries (excluding the former Soviet Union and China).

From 1965 to 1990, 41 countries with 2.1 billion people achieved an average per capita growth rate of 3.3 percent a year. Such a rate is substantially above the DAC growth target. An additional 16 countries (with 280 million people) achieved significant growth from 1985 to 1995. Combining the two groups, 57 out of 90 countries with nearly 2.4 billion people (80 percent of the total LDC population of 3 billion) have been able to sustain economic growth at meaningful rates for a reasonably long period of time. Looking forward to 2015, growth rates set by the IBRD appear to be well within the reach of most countries. Maintaining recent growth rates in Asia, and increasing growth rates in most of Sub-Saharan Africa would get the job done.

If economic growth is the key to poverty reduction, what is the key to economic growth? Experience from the last 25 years shows that countries with good policies and institutions, ones that supported the effective use of resources, were best able to generate economic growth and improve the well being of their people. Good policies vary in their emphasis and structure, but have common elements: pursuit of sustainable, broad-based and rapid growth; openness to the global economy; investment in human capital, and a sound, well-governed institutional base that supports participatory approaches and a dynamic private sector. A developing country's policies and institutions are key to the process.

Included are sound monetary, fiscal, trade and pricing policies and the encouragement of effective investments in human resources and infrastructure. Institutional capacity is critical --- governance, corruption, the rule of law, the quality of financial regulations and the effectiveness of the civil service are key elements.

5. How is the donor community approaching poverty reduction?

The 1990s brought a period of heightened commitment to poverty reduction. The World Bank's 1990 World Development Report placed specific emphasis on the problems of the poor, and on monitoring the implementation of the poverty reduction strategy outlined in the report. A series of international meetings and summits held by the United Nations and its specialized agencies discussed the need for greater progress in poverty reduction. They set international development targets, which have been accepted by UN members.

The OECD/DAC, the World Bank and IMF held similar meetings. The draft 2000/1 World Development Report focuses on poverty. A recent study completed by G Bureau (Fox, 2000) found that poverty reduction is now the "central unifying principle" in over half of donor country assessment strategies. In 1996 the OECD DAC report, Shaping The 21st Century, identified poverty as a critical problem. At the annual DAC meeting, members committed themselves to a partnership with developing countries to meet specific poverty reduction targets. There was a commitment to cut in half the proportion of people living in extreme poverty by 2015, together with associated targets related to basic health care and universal access to primary education (see box on page 20 for specific targets). This year the DAC will complete its poverty reduction guidelines.

Another important aspect of the DAC's vision in Shaping the 21st Century was the concept of country ownership of the development process, which is also central to the World Bank's proposal for a Comprehensive Development Framework (CDF). These are currently being piloted in 12 countries and in the West Bank/Gaza and include elements of poverty reduction. More recently, the World Bank and the IMF agreed to coordinate their efforts to reduce poverty. All countries borrowing at concessional terms from the Bank or the Fund will produce country-owned poverty reduction strategies that will serve as the context for Bank and Fund lending in those countries. These country-owned strategies are set out in Poverty Reduction Strategy Papers (PRSP) and are linked to debt relief for the Heavily Indebted Poor Countries (HIPC). The G-7 will review global poverty trends at the July 2000 summit in Okinawa.

Several donors are taking a lead on poverty issues: The U.K. aid agency (DFID), has made poverty its guiding principle. The World Bank appears to be reorienting its program to “mainstream” poverty, and the DAC is developing guidelines on poverty reduction. IFAD is taking the lead on rural poverty.

The U.K. Department for International Development

The U.K. has fully adopted the DAC poverty reduction commitments and is completely integrating poverty reduction in its bilateral aid program. The assistance strategy includes three elements: (A.) rapid economic growth, driven primarily by the private sector; (B.) equity, i.e., inclusive growth with improved access by the poor to health, education, markets and assets -- here the concept is widened to include "human, social, natural, physical and financial" assets; and (C.) security, or decreased vulnerability to shocks such as natural disasters and economic downturns.

DFID aid programming includes the analysis of poverty at the country level and the development of a poverty reduction country strategy. The country strategy is developed in partnership with the host government, the private sector, civil society, parliamentarians and the media. What is notable about the UK approach is that the country analysis includes the politics of poverty (who is pro-poor and who is anti-poor, and who captures the benefits of pro-poor programs). They recognize that the LDC elite’s must be convinced of the benefits of including the poor in growth strategies and the costs of excluding them (e.g., increased crime, and lower economic growth). There is also considerable emphasis in the DIFID approach on improving agricultural productivity and land tenure for the poor.

Other important priorities for DFID include better coordination with the development programs of other DAC donors, less tied aid, possible tariff preferences for poor countries, increased development assistance for countries that have developed effective poverty reduction policies, and improved disaster preparedness.

World Bank

The World Bank’s new thinking about poverty is described in its draft World Development Report (WDR), to be published in October 2000. The focus on poverty is not new. The World Bank addressed poverty in its 1980 and 1990 World Development Reports. The 1990 report set out measures to promote labor-intensive income growth through market-oriented reforms. Reforms were accompanied by increased spending on social services, especially health and education, so that the poor could take advantage of expanding economic opportunity. In the ten years since that report, results have been mixed. Growth occurred, but with less impact on the poor than in East Asia and other countries such as Uganda. WDR 2000 appears to be an attempt to improve the poverty impact of Bank programs by broadening the 1990 poverty reduction strategy.

The Bank proposes to broaden its attack on poverty and all its dimensions. Economic growth remains the engine of poverty reduction, because research over the last ten years consistently shows that poverty reduction is highly correlated with overall economic performance. But the Bank's draft report strongly suggests that policy-makers should pay more attention to the pattern of growth and who are the beneficiaries of the growth. There are additional institutional factors, which must be taken into consideration as well.

In the Bank's view, there are three "pillars" of poverty reduction:

> <u>Empowerment</u> -- Making state institutions pro-poor, removing social and political barriers to poverty reduction, encouraging civil society institutions that represent the interests of the poor, and better access by the poor to the legal system.
>
> <u>Security</u> -- Minimizing the consequences of the negative shock on the poor from natural disasters and economic restructuring.
>
> <u>Opportunity</u> – Expanding economic opportunities for the poor by increasing their assets and increasing the returns they earn on those assets. An understanding of poverty must be based on the interaction of assets, returns to assets, and volatility of returns that go beyond simple economic processes to include the social and political dimensions as well.

The last pillar is a valiant attempt to link the economic and institutional concepts of the approach. Assets include those that economists usually list: <u>physical</u> (land, equipment, forests) and, <u>human</u> (labor, education, health). Then there are the more intangible assets. These include <u>social assets</u> or social capital, e.g., reciprocal relationships and civil society. There are also political or institutional assets (community participation) and location of infrastructure assets (proximity to a road or water source). These assets should be developed at the national level by "redistributive actions" based on a greater focus on the poor in public spending for education and health, decentralized urban services, group-based credit and insurance programs, community management of education, decentralization or road maintenance, land reform, etc.

The report talks about the "elasticity of poverty," the percentage change in the proportion of people below the poverty line with respect to changes in per capita income or consumption. Depending upon the elasticity in a given country, a one-percent increase in per capita income means the proportion of people below the poverty line is reduced by 1.5 to 3.5 percent. (Even at the lower bound, growth in per capita income at 2 percent annually would achieve the DAC target over the course of 25 years.) A greater reduction in poverty will be achieved from a pattern of growth that promotes demand for low–skilled workers, boosts agricultural productivity, and economic policy reforms that do not discriminate against the poor.

The final chapter of the report proposes to reform the system of international development cooperation to make it more effective than in the past. Proposed changes fall in three main areas: partnership, i.e., increasing ownership of the poverty agenda by the government and citizenry through a consultative process with government, civil society and the private sector; selectivity which means better targeting of assistance to countries that have large numbers of poor people, but also effective policies and institutions to deal with poverty; and less intrusive conditionality that should involve a sector rather than a project approach, with the ultimate goal of common pooling of development assistance resources.

OECD Development Assistance Committee (DAC)

The DAC Informal Network on Poverty Reduction (DAC Pov-Net) has been working to identify donor approaches and best practices. It is developing guidelines that will help donors implement measures to achieve the DAC International Development Targets (see box). The Pov-Net December 1999 report, "DAC Scoping Study of Donor Poverty Reduction Policies and Practices" analyzed 25 donor aid programs (all DAC members and the World Bank, IMF, E.U. and UNDP). It classified donor approaches and the various paths donors were taking to reach the common goal of poverty reduction.

International Development Targets
Adopted by the Development Assistance Committee (DAC)

Economic Well-Being
- Reduction by one-half in the proportion of people living under the poverty line of one dollar a day by 2015.

Human Development
- Universal primary education by 2015.
- Elimination of gender disparity in primary and secondary education by 2005.
- Infant and child mortality rates reduced by two-thirds the 1990 level by 2015.
- Maternal morality rates reduced by three-fourths by 2015.
- Access to reproductive health services by all.

Environmental Sustainability
- Implementation of national strategies for sustainable development by 2005.

Source: DAC, Shaping the 21st Century: The Contribution of Development Cooperation, May, 1996.

The DAC Pov-Net has identified four strategies that all donors use in varying degrees:

---All donors agree that **economic growth** is essential and most donors attach the condition that growth should be "pro-poor" or "broad-based." There is some uncertainty as to what is or should be included in "pro-poor" growth. Gender analysis of economic growth is well understood at the micro or project level but less so at the macro level.

--**Social sector investments**, particularly investments in basic social services (health, education, potable water), feature in all donors' poverty reduction strategies. Most donors view social sector investments as either objectives that have value in their own right (meeting basic human needs) or as instrumental in developing human capital, which leads to greater productivity and economic growth. Several donors have a strong gender component in their social sector work.

--**Political strategies** stress increased participation of the poor as essential to ensuring that policies and projects are in fact pro-poor. Donors assume that more democratic, pluralist politics and a more accountable government will favor the poor. Many assume that decentralization delivers benefits to the poor. DAC Pov-Net questions this assumption since the evidence that the voice of the very poor is strengthened under more democratic conditions has not been examined critically by donors.

--**Safety-net strategies** to reduce poverty are less prominent in donor approaches. Both short and longer-term structural adjustment measures are included. A number of donors strongly support strategies to promote food security as part of an overall poverty reduction strategy.

Since donors have accepted poverty reduction as the critical Third World development problem, their aid programs should reflect that concern. How aid is organized and implemented will indicate the degree of poverty orientation of the particular program. The OECD/DAC Pov-Net report, "Scoping Study of Donor Poverty Reduction Policies and Practices," identifies eight key elements that should be included in donor programs. It analyzes donor programs to see whether those elements have been fully adopted, partially adopted, or excluded. The results of this analysis are presented in Table 1.

Donors are considered to have "**mainstreamed**" poverty reduction when they have adopted most of the elements listed in Table 1 below (particularly the explicit goal of poverty reduction in donor guidance or country strategy). The DAC Scoping Study says that in general, a donor is mainstreaming poverty when: (1) its (the donor's) incentive structure rewards poverty reduction; (2) it is organized for poverty reduction (i.e., has an explicit poverty reduction goal); 3) it has mainstreamed gender in all its programs; and 4) it has a poverty-oriented monitoring and evaluation system (OECD, 1999a).

A donor project or policy is considered to be "**pro-poor**" if it "improves the opportunities for the poor to obtain better livelihoods and increased access to resources, knowledge and rights," according to the DAC Study.

Table 1. Measures of Donor Action On Poverty Reduction

Donor Poverty Approaches	Commitment to Poverty Policies (Percent of Donors)		
	STRONG	**LIMITED**	**NONE**
Senior Management Commitment to Poverty	52	28	20
Donor has Specific Poverty Guidance in Place	21	46*****	33
Poverty Training Program for Agency Staff	26	9	65*****
Gender Poverty Training Is in Place	35	52*****	13
Poverty Monitoring System is Operating	37	0	63*****
Country Assistance Strategy Includes Poverty	39	19	42*****
Host Government Participates in Aid Planning	44*****	36	20
Civil Society Partners Participate in Aid Planning	20	50*****	30

*****Ratings category which includes USAID Program. Source: OECD, 1999a.

The first question posed in the DAC study is whether senior aid managers are committed to poverty reduction, i.e., whether managers send top-down messages underscoring the importance of poverty reduction. The study found that only half were committed. The next question is whether development agencies have poverty reduction as their overarching goal --- or at least as one of the top two or three goals. Twelve donors had poverty reduction as their main goal and nine, as one of their top two or three goals. Only four donors did not have an explicit poverty goal (USAID, France, Portugal and the IMF).

Before implementing a poverty reduction strategy, a donor needs to understand the country's specific nature of poverty. This requires an economic and social analysis of the causes of poverty and how best to identify and target the poor, according to the DAC. Much of donor targeting is broad-brush, with a tendency to treat target populations as homogeneous socio-economic groupings (e.g., assuming that all women and all agricultural smallholders are poor). Donor strategies often provide an ex-post rationalization of aid based on strategic and trade interests, rather any systematic assessment of the needs of the poor and the causes of their poverty.

According to the DAC, poverty reduction goals and strategies must be mainstreamed throughout a donor agency if they are to translate into concrete benefits for poor people. Even when senior management has a commitment to poverty reduction, the overall incentive structure within agencies is often not specifically designed to encourage staff to make poverty reduction their overriding priority. Out of 25 donors, only five have specific operational poverty guidance. USAID, along with 11 others, has “general awareness raising guidance” and 8 donors have none. The same goes for staff training. Only five donors have specific poverty reduction training (USAID, and the other donors have none). On mainstreaming gender training and its relation to poverty, 8 donors have substantial training while the others (including USAID) have some limited training and a few have none.

Poverty reduction requires poverty monitoring systems that provide accountability along with effective feedback and lesson-learned. According to the DAC, nine donors have such systems while others (including USAID) do not. Nine donors require country program managers to focus on poverty in their country assistance strategies, six have some emphasis and the U.S. and 10 other donors have none. The U.S. and 10 other donor require host government participation in the country assistance planning process. The others have limited or no participation. Four donors require civil society partners to participate, the U.S. and 9 other donors have some participation while 6 donors have no participation.

9. USAID’s Approach to Poverty Reduction

USAID Goals and Poverty Reduction

USAID has six Agency Goals (economic growth and agricultural development, democracy, human capacity development, family planning, environment, and humanitarian assistance). It does not have a stand-alone poverty objective. Only the economic growth goal mentions “the poor.” There is no mention of poverty or the poor in the Agency’s Mission Statement.

USAID has no official definition of poverty.[3] The closest thing to a working definition of poverty used by USAID is “food security,” which is defined by Congress in the 1990 amendment to the Agricultural Trade Development and

[3] However, “alleviation of the worst physical manifestations of poverty” is mentioned as one of four goals of US foreign assistance cooperation in the Foreign Assistance Act of 1961, as Amended (the other three are: self-sustaining economic growth with equitable distribution; encouragement of civil and economic rights; and integration of developing countries into the world economic system).

Assistance Act of 1954, as, "access by all people at all times to sufficient food and nutrition for a healthy and productive life." A very similar definition was officially adopted by the 1996 World Food Summit in Rome. However, as a poverty concept it is a little narrow because it excludes such dimensions as access to some social services and empowerment (see box p. 13). Also, the concept only applies to a part of USAID's portfolio (the PL-480 food program).

The 1990 PL-480 legislation also refers to the World Bank's definition of poverty, and instructs US Government agencies to use it when programming PL-480 food resources. In practice USAID uses the definition of poverty most commonly used by the World Bank, which is the "money-metric" approach, i.e., $1 or $2 per day income equivalent.[4]

The uniformity in the definition of poverty by USAID stops at this point. Those few operating units that specifically address poverty in their strategic objective statements use slightly differing concepts.   For example, the LAC Bureau targets poverty reduction at the strategic objective level. LAC Missions shifted their economic growth strategies from the more macro approach of "strengthening markets," towards the pro-poor objective of "expanded access and opportunity for the poor." In the box below are examples of poverty reduction indicators used by LAC.

Country	How Progress is Measured (Poverty and Income Objectives)
Honduras	% of people below the poverty line.
Nicaragua	% people living in absolute poverty.
Guyana	Increase in average income of the poorest 40%.
Bolivia	Average annual net income of poor households.

Regardless of whether poverty impact is used as a success indicator at the field level, USAID views economic growth as key to poverty reduction, as evidenced in the Agency's 1997 Strategic Plan:

> "Broad-based, equitable economic growth is the most effective means of bringing poor, disadvantaged and marginalized groups into the mainstream of an expanding economy. The keys to broad-based growth and reduced poverty are expanded human capacity through education and training, a policy environment that promotes efficiency and economic opportunity for all members of society, soundly organized and managed institutions and good governance. The resulting widespread increases in income, employment and output lead to reduced poverty,

[4] The $1 or $2 per day income equivalent uses the concept of "purchasing power parity," a measure that corrects for inflation and exchange rate changes. PPP is based on the notion that a dollar should buy an identical basket of goods and services in all countries, over the long run. The best-known use of the term is the Big Mac index devised by The Economist, as a simple guide to show if currencies are over-valued or under-valued against the dollar.

> increased food security and higher standards of living including better health and education."]

Many USAID officers believe that the Agency approach is based on a firm historic record --- broad-based development is essential if poor countries are to reduce poverty. Poor countries need to achieve rapid, broad-based economic growth that creates expanding economic opportunities for the poor. By investing in the poor through basic education, health and other services, USAID can help the poor take advantage of expanding economic opportunities. Humanitarian assistance provides a safety net for those who cannot work. Improved democracy and governance helps ensure that policies and programs reflect the needs of the poor. Gender is addressed as part of an intricate cause-and-effect relationship of poverty. Environmental activities make development progress sustainable. Poverty and food insecurity are seen as involving largely overlapping groups, that is, the fight against poverty is part and parcel of food security efforts, and vice-versa.

Thus, many within USAID believe there is little difference between a strategy for poverty reduction in poor countries and a strategy for development in poor countries. All of the elements in USAID's collective strategy for sustainable development help achieve lasting reductions in global poverty.[5] The argument is that since poverty reduction is already present in each of the Agency's six strategic objectives, it is confusing to talk about a single "poverty objective" because it is redundant.

<u>The 1970's Basic Human Needs Approach</u>[6]

Is the current interest in poverty reduction just a re-hash of the 1970's BHN programs? BHN programs of the 1970s were a reaction to the growing disappointment with the "trickle-down," industrialization approach of the 1960's. When Congress passed the New Directions Legislation of 1973, USAID's development focus shifted from straight growth to growth with equity. USAID projects were justified in terms of their "immediate, direct and exclusive impact on the well-being of the poor majority (DCC, July1980)." Typical programs targeted at poor people were direct food distribution, health and nutrition services, basic education and family planning, rural roads and agricultural extension programs.

However, many of the 1970s BHN programs, such as the integrated rural development projects, failed to work because of bad economic policies and weak institutions: inward-looking trade policies, import-substitution

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[5] It is interesting note that USAID's six strategic goals are very similar to the DAC's "poverty reduction strategic entry points" in the June, 2000 draft of the <u>DAC Poverty Reduction Guidelines</u>. This again illustrates the multi-dimensional nature of the USAID approach to poverty reduction.

[6] For a more complete discussion of the evolution of development thinking from the 1970's, see Crosswell 2000.

industrialization, foreign exchange rationing and predominance of state-owned enterprises. The policy reform aid programs of the 1980s and 1990s helped to improve this considerably in many countries. Also, many BHN projects were institutionally complex and overly taxed the capabilities of local administrations. Many were designed without substantial local participation, and they had impact on a very limited number of beneficiaries.

The failure of many projects in absence of economic policy reform is a common thread underlying USAID's evaluations of BHN projects of the 1970s. The same has been the case for agricultural development programs when government policies are biased against smallholders. Evaluations have shown that removal of bad economic policies—such as government distribution of fertilizer or price and market controls—usually directly benefits the poor, as long as there are capable supporting institutions.

Deja-Vu

The new DAC approach to poverty reduction for the 2000's reflect the "lessons-learned" from CDIE evaluations of USAID integrated rural development projects of the 1970's:

Lessons Learned from early Integrated Rural Development Projects:

- There must be a conducive economic policy environment.
- NGOs and the private sector should be more intensively integrated into programs.
- Program design and implementation should be community-driven.
- Development approaches should be better tailored to host country-specific contexts.
- Donors should avoid creation of autonomous agencies.

Finally, there is fear among many within USAID that if the Agency were to make poverty more prominent in its strategic framework, it would fall into the "poverty trap," as one expert warns (Thin 1999), where the focus is centered on direct poverty reduction, local culture and organization among poor people to the exclusion of broader and higher-level strategic issues.

The 1980s and Policy Reform

In the 1980's, US foreign assistance policy emphasized economic stabilization, structural adjustment and policy reform. This approach came out of recognition that direct assistance to poor people was only a partial solution to the problems of poverty. Policy reform became a critical element of USAID programs. A review[7] of CDIE and other evaluations shows that the success of USAID-supported development programs in export promotion, small and medium business enterprise, agriculture and private sector development depends a great deal on an effective enabling policy environment. However, even if a country puts good policies into place, strong institutions are needed to effectively implement the policies.

[7] USAID March, 1995;. Pennel, December 13, 1999;. USAID May 1994; Bowles March 1998; USAID May 1996; Bremer et al., March 1985; Nathan Associates, May 1993; Lieberson, December 1991.

Evaluations of USAID policy reform programs reaffirm much of the current DAC poverty recommendations on the political economy of poverty, the need for better donor coordination and above all, the need for partner country government's commitment to reform. CDIE evaluations of USAID economic reform efforts in Africa and Latin America and the Caribbean found that USAID needed to: pay more attention to the role of powerful interest groups that had a stake in the reforms (i.e., the political economy of reform programs); consider the costs of adjustment for those most severely affected by the reforms; and coordinate better with other donors. An evaluation of a policy reform program in Jamaica found that USAID needed to intervene in the partner country government's selection of budget areas for reductions in order to cushion the effect of adjustment on the poorest parts of the population.

The record has shown that USAID can be very effective in economic policy reform even though it may not offer millions of dollars for conditionally. An evaluation of policy reform programs in Honduras and Costa Rica found that USAID was effective because of its country presence and provision of technical assistance in contrast to the arms-length multilateral agencies. The example of U.S. assistance to Korea in the 1960s shows that attempts at policy reform work best when the partner country is strongly committed to and clearly wants the program.

The 1990s and Broad-Based Sustainable Development (BBSD)

In the 1990s, USAID's policy emphasis was on "sustainable development," which combined economic growth and market policies with the provision of health, education and other social services for the poor. USAID supported programs in four areas considered fundamental to sustainable development: 1) education and health; 2) broad-based economic growth; 3) environ-mental protection; and 4) building democracy. USAID continued to provide humanitarian assistance and disaster relief with dollars, technical expertise and food assistance. A "sustainable development" program required investments in human capital (education, health and food security), participation of the recipients of the aid, inclusion of the specific needs of women in developing nations, coordination with host nations and other donors, and use of integrated approaches and methods through policies and country strategies (USAID, 1994d). The remarkable growth of the East Asian countries, which combined good macroeconomic management with strong government policies supporting education, health and other social services, are considered to be the best examples of BBSD policies applied successfully (Weaver et al., 1997).

USAID Programs Have Poverty Reduction Elements

For this paper CDIE briefly reviewed the USAID portfolio over the last twenty years to get a sense of poverty impact. This review was primarily based on secondary data (evaluation summaries and a sample of USAID operating units'

R4s). We categorized USAID programs as using a “direct” or “indirect” approach to poverty reduction, i.e., programs that are closely “targeted” on the incomes and well-being of poor people, versus those that are “inclusive” and have an indirect impact on incomes and well-being of poor people.

Direct programs tend to be government-provided services, short- rather than long-term and tend to have impact on fewer people. Examples of direct programs are agricultural extension activities providing improved seed to small farmers, microenterprise lending or primary education for poor children. Indirect programs are generally longer term and have impact on greater numbers of people. Examples of indirect programs are economic policy reform, agricultural research and democratic governance.[8]

Indirect approaches, such as economic policy reform and good governance, are necessary in any sustainable poverty reduction strategy. Without broad-based economic growth which includes indirect approaches, the investment necessary to sustain direct programs cannot be maintained. There is considerable argument that because they are growth-mediated, indirect approaches are more effective at poverty reduction.[9] Mancur Olson of the IRIS Center said that programs that improve institutions and policies are similar to fishing with a net, whereas programs that alleviate poverty by providing direct assistance from scarce donor agency budgets are like fishing with a hook. The former feed people and the latter give pleasure to the fisherman.[10]

1. <u>Economic Growth and Agricultural Development</u>

Many consider micro-enterprise loans as USAID’s main poverty program and the best example of the direct approach to poverty reduction. Currently they are having a direct impact on about a million poor households, with a majority of clients being poor women. About 90 percent of the loans are “poverty loans” of less than $300. However, only a small number of the 1.2 million people living in poverty receive loans. However, a recent review (Dichter, 1999) of over 1,000 microfinance institutions in over 100 countries suggests that micro-saving, rather than micro-lending, would have greater potential for poverty reduction.

USAID’s agriculture programs also have a direct impact on smallholder incomes. As in micro-enterprise, NGOs partners implement many of these programs which tend to be market-driven activities providing technical and

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[8] The separation between direct – indirect approaches can only be taken so far. Direct programs focused on poor people such as primary education or land redistribution can have powerful indirect effects later on. Indirect programs that reduce government deficit-spending (which may reduce inflation) can have significant and relatively immediate impact on incomes of the poor. Privatization of fertilizer distribution had direct impacts on small farmer incomes (USAID, 1995a). For a review of the different direct-indirect poverty approaches, see Thin, 1999.

[9] World Bank, 1990; IRIS, 1994; Bahgwati, 1988

[10] Olson, 1997, pp. 58-59.

marketing assistance to poor families. As in micro-enterprise, the percentage of poor beneficiaries is very small. Programs that link small farmers to export markets (e.g., small coffee farmers) have greater indirect impacts. A CDIE evaluation (USAID, 1995a) found that private sector agribusiness projects in seven countries had measurable impacts on smallholder incomes and increased employment opportunities for poor women. Many research programs supported by USAID through the CGIAR and Title XII universities throughout the late 70s and 80s were heavily small-farmer focused but had substantial indirect impacts.[11] A recent study by John Mellor (1999) argues that reductions in public expenditure for agricultural research and rural roads (indirect programs) in the late 1990's had a detrimental impact on poverty reduction in rural areas.

Other economic growth programs in trade and investment, small business and private sector development indirectly promote poverty reduction insofar as they promote growth in poor countries. A recent study (Fox 1999) found a strong but indirect link between capital market development and poverty. Increased efficiency in the allocation of financial resources increases output and employment, which benefits the working poor. Privatization programs support capital markets and do not necessarily lead to significant unemployment as is widely believed (Pennel & Robershaw, 1994).

2. Population, Health and Nutrition

Clearly, USAID-supported health services directly improve the lives of poor people. USAID is the leader and largest bilateral donor in child survival and family planning. Smaller families have higher incomes and savings than larger families, according to a CDIE study of six countries (Norton et al. 1997). Today more than four million infant and child deaths are prevented annually due to child survival services supported by USAID. A recent CDIE review (Martin 1993) of Oral Rehydration Therapy (developed in the 1960s with USAID funds) and other child survival programs document the dramatic effect these programs can have on the lives of poor people. Other programs in nutrition and maternal health directly improve the lives of poor people by decreasing health care costs and increasing productivity and household incomes. USAID is also a leader in HIV/AIDS education and prevention programs.

3. Education and Training.

The impact of basic education of poor children on poverty reduction is also direct and powerful. Economic rates of return can be as high as forty percent (Schultz, 1994) USAID was one of the first donors to invest in girls' education and recent reviews show

Girls' Education

Significantly more girls are entering school and staying in school in USAID-assisted countries. In Guatemala, Guinea, Malawi, Mali and Morocco, girls' enrollments increased from 12 per cent to 35 per cent between 1990 and 1997. Source: Clay 1999.

[11] See: Oehmke, 1997; Mellor, ?

that USAID programs are having an impact on the health, fertility, and income of poor people. A review by PPC (Sillers, 2000) notes that primary education contributes to faster economic growth, reduced income inequality, increased child survival and family health, reduced fertility, improved status of women and increased support for democracy and civil liberties. Outstanding achievements in basic education policy reforms (shift of budgetary emphasis from tertiary to primary education, government commitment to non-salary costs) were realized under the Development Fund for Africa and other programs over the 1980s and 90s (USAID 1997). It would be instructive to know if these reforms were sustained by African governments.

4. Humanitarian Assistance and Food Aid

There is a strong relationship between disasters and poverty. Disasters result in vulnerability and food insecurity, important elements of transient poverty. USAID is the leading disaster assistance donor and has also worked to move disaster victims from relief to sustainable development rapidly. Recent CDIE evaluations (USAID 1999) demonstrate that USAID has been successful in dealing with both natural disasters (weather and earthquakes) and man-made disasters (war and civil conflict). PL-480 Title II programs emphasize food security which is directly related to poverty reduction. Food for work, maternal and child health and school feeding programs all alleviate the immediate problems of hunger while building the basis for future development.

5. Environment, Energy and Natural Resources

The impact of environmental programs on the poor in biodiversity, climate change and energy conservation is at best indirect and difficult to quantify. Sustainable agriculture, forestry and urban air pollution abatement have clearer impacts on the poor. For example, USAID programs to transform destructive hillside agricultural practices directly improved the income of poor farmers in many countries. Work on air pollution in Cairo, Egypt will reduce morbidity and mortality.

6. Democracy and Governance

A review of the Agency's democracy and governance activities on the USAID Intranet, CDIE and Development Clearinghouse resources shows that there is little mention of the poor outside of the areas of access to justice, dispute resolution, contract enforcement and legal advocacy. These areas are generally associated with "economic governance," i.e., the cross-linkage between democracy and governance, and economic growth.

Civil Society and Social Capital

Many USAID activities build social capital through civil society programs but also through such activities as microenterprise solidarity groups, neighborhood municipal associations under decentralization programs; and mother-child health groups. These can have a positive impact on the household welfare of poor people. However, it is important to hold in mind that it is the lack of economic resources - beginning with jobs - that underlies the plight of poor people. If improved civil society efforts increase access to economic resources, economic growth should increase.

The Agency's record on getting these two sectors to work more closely together has not been consistent (Blue, 2000).

Do elections contribute to poverty reduction? The relationship between democratization and poverty reduction is indirect. It is assumed that elections bring about democratization, which in turn pressures from the poor majority for efforts to reduce poverty. The relationship between democratization and poverty reduction in the Agency's programs needs to be examined more thoroughly.

Civil society organizations often take on controversial issues that can directly affect the lives of the poor. In the area of democratic local governance, a recent report[12] shows that USAID-supported programs can alleviate poverty by strengthening the capacity of local government to deliver important municipal services to the poor such as water, trash and sanitation. They can also significantly increase political participation of marginal groups and empower geographically concentrated minorities.

7. Gender

USAID is a donor leader on gender issues. USAID's gender initiatives are applied across all development sectors, and are divided into two types of programs: 1) programs designed to overcome the economic and social barriers to women that prevent their equal participation in society, and 2) programs that give basic protections to women. Gender programs designed to give basic protection to women's rights, such as the Women's Economic and Legal Rights project in southern Asian countries, indirectly impact poverty by working to eliminate practices that endanger and oppress women. Programs that ensure gender equity in land ownership and tenure provide similar benefits and support poverty reduction.

USAID's Budget and Direct - Indirect Approaches to Poverty Reduction

To what extent are USAID development resources directly focused on poverty reduction? To get at this issue, we looked at USAID's actual appropriated funding level for FY 1999 (Table 2).

Excluded from the analysis are a little over half of the funds which are allocated to Eastern Europe and the New Independent States (where the immediate concern is transition from communism) and to Egypt and Israel (where the major concerns are support for peace and political stability).

The rationale for separating these out is that, even with a poverty reduction goal for the agency, these funds would continue to be allocated mainly on the basis of these special foreign policy concerns. The countries receiving these

[12] USAID/El Salvador Website – http://www.info.usaid.gov/el_salvador/story2.htm

funds are not the neediest of countries as their economic and social indicators show.

Table 2.
USAID's FY 1999 Budget and
Direct/Indirect Approaches to Poverty Reduction ($000's)

USAID Account	**Direct**	**Indirect**	**Not Applicable**	**Total**
Sustainable Development Assistance	579,090	495,510	119,400	1,194,000
Child Survival and Disease	595,000	0	0	595,000
International Disaster Assistance	200,000	0	0	200,000
Credit Programs	8,500	0	0	8,500
Development Credit Auth.	0	0	0	0
P.L. 480 Food for Peace Title II	837,000	0	0	837,000
P.L. 480 Food for Development Title III	25,000	0	0	25,000
Subtotal	**2,244,590**	**495,510**	**119,400**	**2,859,500**
Economic Support Fund & International Fund for Ireland	0	0	2,432,831	2,432,831
Assistance to the N.I.S.	0	0	847,000	847,000
Assistance for Eastern Europe and the Baltics	0	0	430,000	430,000
USAID Operating Expenses	0	0	492,650	492,650
I.G. Operating Expenses	0	0	30,750	30,750
Foreign Service Disability & Retirement	0	0	[44,552]	[44,552]
USAID Total	**2,244,590**	**495,510**	**4,352,631**	**7,092,731**

Based on our own re-interpretation of Table 2 in Plunkett, Daniel J. and Lynn Salinger. January 22, 1999. "A Case Study of the United States Agency for International Development," OECD/DAC, page 17, using FY 1999 Appropriated Levels from "Summary of USAID Fiscal Year 2000 Budget Request", Congressional Presentation (USAID web-site) and the “direct” – “indirect” approach used in the text.

This leaves Sustainable Development Assistance, Child Survival and Disease Funds, food aid, International Disaster Assistance, and Credit Programs. The total for these categories was nearly $2.9 billion in FY99. Classifying these programs along the direct – indirect approach used in the previous section, we conclude that roughly 79% of this funding **directly** addresses poverty, compared with 17% that **indirectly** addresses poverty, and only 4% that is "not applicable".

USAID has successful examples of “pro-poor” programs

The Development Fund for Africa (DFA) and the PL-480 Title III Food for Development programs are two successful examples of “main- streaming” poverty reduction. Both programs had explicit poverty strategies, were multi-dimensional (in that they combined broader indirect economic growth and policy reform approaches with more narrow, direct approaches to poverty reduction) and had a poverty-oriented monitoring system.

Development Fund for Africa (DFA)

One unique thing about the DFA is that it defined a particular niche for USAID -- actual implementation of sector reform programs. The combination of non-project assistance with project assistance ensured much better overall program and policy coherence, because it focused on changes of entire systems. “The bottom line remains that one cannot transform the village until the political and economic environment is restructured to encourage change.” (USAID, 1992)

The DFA (1989-1992) had several key aspects which made it an excellent “pro-poor” program. It concentrated resources in those countries that demonstrated a willingness to undertake economic policy reforms or basic structural adjustments. It focused on key sectors within those countries in which USAID field Missions had identified the elements most critical to economic growth and poverty reduction. It included both broad policy reform and direct project assistance modes, integrated with food aid. It is noteworthy that the DFA did not have to use traditional USAID functional budget accounts; the Agency was able to plan assistance based on a country’s specific development needs, undistorted by earmarked funding accounts.

The DFA used results-based “people level indicators.” Finally, the DFA required that USAID field Missions coordinate closely with other donors and the NGO community. While the DFA could have been more narrowly focused (it had 4 strategic objectives, 12 targets and 72 benchmarks), it was nonetheless successful in setting up a framework for measuring program impact. A 1991 audit of the DFA by the GAO was complimentary of the program (GAO, 1994).

PL-480 Title III programs (also defunct) included project and non-project assistance (Plunkett & Salinger 1999). Strong host country involvement was usually ensured since local currency proceeds were programmed

PL-480 Title III

Title III programs in Indonesia, Bolivia and Peru are good examples of pro-poor targeting. The objective of food security drives the results because it is explicitly stated. Impact on poor people can be measured instead of program outputs like "tons of food delivered."

Jointly by the host 0country and USAID. Title III has been successfully used for support to policy reform in many countries, such as Bangladesh, often in the agricultural sector and often to complement other policy reform efforts by multilateral donors. In Nicaragua, it was successfully used to promote the decentralization of primary health care management and pharmaceutical ordering to outlying health districts.

Title III local currency programs in Honduras, Bolivia and Peru were used successfully across a range of direct assistance projects such as: technology transfer and other sustainable development activities for small farmers; microenterprise; school feeding; food for work; national child immunization; mother and child health and nutrition, including prenatal and postnatal care, breast-feeding, weaning, diarrheal and respiratory disease control; as well as rural infrastructure, watershed management, agro-forestry and other conservation practices at the small farmer level. (USAID, 1994b; USAID, September 1994; USAID, March 19, 1991). All Title III programs were required by law to periodically assess their food security impacts.

Another program notable for its use of an explicit poverty reduction goal is USAID/Peru. It's Strategic Objective for economic growth is "to increase Incomes of the poor."[13] The Mission's "second cities" project identified over thirty economic corridors, combining economic potential with poverty incidence (Plunkett & Salinger 1999 p. 31). The second cities program is concentrated geographically in poor districts which are physically and economically linked to growing markets and intermediate cities (FY 2000 CP). According to the USAID's 1997 Annual Progress Report, the Peru Mission also conducted innovative food security programming, combining maternal and child health, school and community feeding and income generation programs which were tightly focused on communities not benefiting from the country's economic revival (pp. 140-1).

Much of USAID's Program Focuses on Poor People in Poor Countries

A review of the World Bank, OECD and other web-sites shows that poverty reduction strategies call for, among other things, a greater donor emphasis on poor countries, development of strong host country partnerships, mainstreaming gender and adoption of multi-dimensional approaches to poverty reduction. USAID programs have these characteristics.

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[13] USAID/Peru web-site http://ekeko.rcp.net.pe/usa/aidecoe.htm.

USAID emphasis is on poor countries that exhibit commitment to development. A recent study by PPC (Sillers 1999) found that by and large, USAID Development Assistance resources are focused on poorer and more committed (and more populous) countries. A recent evaluation of USAID's approach to poverty reduction (Plunkett & Salinger, 1999) noted that the Agency has a highly sophisticated and effective approach to in-country partnership techniques, begun under the New Partnerships Initiative in 1995. The report also noted that USAID has one of the largest Women in Development offices among donor agencies, with wide-ranging intellectual leadership within the Agency.

It is clear from the previous section of this paper that USAID's approach to development is multi-dimensional, from direct delivery of health and education services for poor people to broader economic policy reforms affecting the incomes of the poor.

Role of Congress, the executive branch and constituencies

USAID receives policy direction from Congress through budgetary "earmarks" for special accounts and initiatives. These earmarks instruct USAID in very detailed terms where and how to spend foreign aid dollars. Additional pressures come from other Executive Branch Departments, particularly political concerns from the Department of State. USAID sensitivity to outside direction, especially from Congress, increased during the foreign aid budget and staffing cuts of the 1990's.

Most earmarks direct USAID to provide direct services and benefits to specific groups of people. These are often programs that help poor people, e.g., microenterprise support or maternal and child health programs. While targeted poverty assistance helps poor people, there is a tradeoff. Equally if not more important indirect programs supporting broader approaches, such as rural health services, economic policy reform or good governance, may be under-funded. With an increase in earmarks, direct assistance may tend to drive out indirect assistance.

Poverty is a highly politicized domestic issue in the United States (Wilson, 1996). Domestic poverty arguments carry over into foreign aid. Conservatives see anti-poverty efforts as international welfare --- which goes against traditional American values of self-reliance. They want to cut back foreign aid. Liberals and the US PVOs would like to see foreign aid concentrated on direct assistance to help the poor. In the view of one expert (Dichter 1999), some of USAID's partner PVOs seem to have forgotten the importance of economic growth. There is a danger if both the conservatives and PVO community are successful --- aid is cut back, with the remaining efforts concentrated on direct aid to the poor. An outside study of USAID found that many within the Agency feel that such problems would be caused by giving more prominence to poverty reduction in the goal statement (Plunkett & Salinger, 1999).

At some point there is a tradeoff between direct and indirect poverty alleviation approaches. A tilt too far towards the direct approach could harm economic growth efforts, ultimately harming the poor. By trying to deliver direct benefits to a limited number of poor people, USAID might fail to support, through institutional development and a sound host government policy framework, a sustainable development process. USAID learned from the experience of the 1970s how direct assistance programs fail when the economic policy environment is bad. With direct assistance, some poor people receive benefits now, but many more lose out over the longer-term if pro-poor markets and institutions are not sufficiently encouraged.

10. What Else Do We Need to Know about Poverty Reduction?

Listed below are poverty questions that could be further examined:

- Should poverty reduction be made more prominent in USAID's strategic framework and goal statement? That is to say, should USAID adopt an explicit over-arching Mission statement or goal of poverty reduction? Despite the arguments in the previous sections of this paper, many USAID officers and partners believe that poverty reduction should be more central to USAID's program. The following points are raised in support of this position:

    1. Only a very few of USAID management units mention the poor in their Strategic Objectives. According to keyword analysis of Agency R-4s submitted by all 109 management units for FY2001, only eleven mention the words "poor" or "poverty" in their SO titles, IR titles or indicators. Since poverty is rarely mentioned, there is a good chance that Missions may fail to adequately analyze the causes of poverty and fail to develop the best poverty reduction approaches.

    2. Although agriculture programs have substantial impact on the incomes of the poor, USAID funding for agriculture sharply decreased from obligations of $594.3 million in FY1992 to $244.8 million in FY1997, a reduction of more than 50 per cent. More recently, the Agency relinquished its position as the USG lead agency to the International Fund for Agricultural Development (IFAD), an important source of lending for agricultural projects in highly-indebted poor countries.

    3. Although agriculture and economic policy reform are two areas with strong links to poverty reduction, both areas have suffered disproportionate staffing declines in recent years. From FY 1992 to FY1998, overall USAID personnel levels fell 31 percent. Over the

same period, the number of foreign service USDH personnel in agriculture and economics fell 65 percent and 43 percent, respectively (declines in civil service USDH staff were 70 percent and 48 percent).

4. The economic growth share of the Agency's development assistance monies has declined drastically from around 55 percent in 1988 to about 35 percent of the Agency's assistance today. Further, within the total available economic growth funding, earmarks and directives claim a large and increasing share. In particular, earmarks for microenterprise only reach a small percent of the poor and have little to do with economic policy and institutional reform that could have a wider impact on the poor.

5. Given the increased concern with global poverty, the argument that poverty is "embedded" in Agency strategic objectives is no longer adequate nor consistent with the spirit and methods of results-based management. If something is not mentioned in program documents, it is hard to measure and easy to forget it. Results-based management, as described in the Agency's Automated Directives System, means that if poverty reduction was included in the Agency's strategic framework, managers would be held accountable for poverty reduction indicators at the field level. In addition, the lack of focus on poverty in the strategic framework makes it difficult to compare the Agency's experiences in poverty reduction to those of other donors. It would be easier to link USAID program results to the DAC Poverty Guidelines and to other international efforts.

6. Mainstreaming poverty reduction would provide a more understandable rationale for the aid program when it is presented to Congress and the American people. Broad-based sustainable development is often a hard concept to understand. It would be easier to say that: "USAID is working to help the very poorest people by focusing its programs on the critical factors that reduce poverty."

7. Progress reporting in the R4 process would be more heavily poverty-oriented, as operating units reported on specific poverty indicators.

8. There would be a better analytical and operational understanding at the country level of aid effectiveness in terms of impact on the poor versus the better off within a country, income inequality, etc.

- It is useful to analyze how aid institutions structure their programs. Have they found a way to have a major poverty impact? What are key donor policies and program approaches? Which approaches seem to have the greatest impact on reaching the poor? This would include the World Bank, IMF, UNDP, DAC and key bilateral donors such as the U.K.

- One question that might be examined is whether direct poverty programs have had a direct and measurable impact on poverty indicators? Can we make the link between direct, targeted poverty programs and changes for specific groups? Have benefits been widely replicated and sustained? Can similar links be identified at the intermediate or sector level and the macro level?

- USAID has country programs that are noted for their emphasis on poverty. Mozambique, Ghana, Peru, Haiti, Uganda and Nepal are often cited as examples. The LAC Bureau also made poverty reduction a more explicit objective of its programs. “Best case” countries could be analyzed. How did the Missions decide to focus on poverty, and what were the results? How do those programs differ from the average USAID country program? What analysis was required to develop a poverty-centered program? What special problems result from this approach? What have been the costs and benefits?

- Compared to Africa and South Asia, poverty is not a prominent feature in USAID programs in Eastern Europe and Russian. With the end of the Soviet Empire, there has been a sharp decline in incomes and living standards and an alarmingly rapid growth in the numbers of poor people living under $2 a day. Is poverty becoming a major problem? What types of poverty programs have been implemented? Have non-poverty programs included a poverty element? What have other donors tried?

- The Development Fund for Africa is one of the few USAID programs that had an explicit poverty focus, and is an excellent example of a poverty-centered program combining direct and indirect forms of assistance. Were the important policy reforms in basic education and agriculture achieved under the DFA sustained after 1992? Why or why not?

- An in-depth examination of USAID poverty-centered programs in three or more countries could generate useful information. These would be country programs that have developed innovative programs. They could be the best case countries cited above. Much of the work could be done in Washington but field visits might be required. A multi-disciplinary team of development experts would be required for the Washington and field analysis.

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